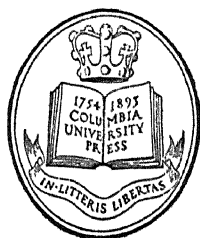


BUSINESS AS A
SYSTEM OF POWER

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By ROBERT A. BRADY



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To

WESLEY CLAIR MITCHELL

who, without knowing it, has had much
to do with the writing of this book

FOREWORD

MEN HAVE ALWAYS EXPERIENCED difficulty in perceiving the thrust of deeper tendencies beneath the surface phenomena of their day. Particularly when long-established institutional systems have been breaking up under them have they tended to mistake symptom for cause and to greet predictions of major change with incredulity and aversion. In the main, they wrestle with obvious immediacies in familiar terms; for the rest, the deeper tendencies, they prefer to wait and see. If such a policy has seemed to be not without some justification in more leisurely eras of change, it is today nothing less than disastrous. For we are living through one of the great climactic eras of history, a major faulting of the institutional crust. A symptom of the extent of current change is the extreme ideological confusion. Fascist monopoly capitalism adopts "National Socialism"; organized industry opposes organized labor in the name of "democracy"; and ideological opposites fight side by side for goals that sound alike only because they are left vague. In such a time, when men and their most cherished concerns are being dragged headlong at the heels of confused events, the one chance for constructive recovery of control lies in the diagnosis of underlying causes.

In this book Dr. Brady cuts through to the central problem disrupting our world, the most dangerous issue democracy faces. This problem is not basically created by Adolf Hitler and the Axis nations, but by the organized economic power backing the Hitlers in nation after nation over the industrial world as a device for shoring up for yet a while longer a disintegrating economic system. And while this war against the immediate Axis Hitlers must be fought and won as a necessary step in the reestablishment of a democratic world, we citizens of the United States and of other democratic nations would better learn, and quickly, to focus our strategy on the fact that the war is an episode in the world-wide counter-revolution

against democracy; for, win, lose, or draw in the military war, democracy will be lost unless it also wins, even as it fights the Axis nations, its internal political conflict.

This is a book about power and the organization of power around the logic of technology as operated under capitalism. The characteristic thing about democracy is its diffusion of power among the people. That men have recurrently had to have recourse to revolutions in order to assert such a pattern of power attests the inveterate presence within society of a contrary tendency. Power is no less "political" for being labeled "economic" power; for politics is but the science of "who gets what, when, and how." Alexander Hamilton advocated and Jefferson opposed the effort of clotted economic power to substitute concentrated minority class power for diffused power. Lincoln referred to this same tendency when he wrote in 1860, "Soberly, it is now no child's play to save the principles of Jefferson from total overthrow in this nation"; and he went on to speak of "the miners and sappers of returning despotism" engaged in undercutting democracy. The preponderant weight of economic power in the Constitutional Convention, while conceding the outward forms of political democracy, went on at once to curb the exercise of the very power it had just granted; it crippled the force of democratic power at the source by parceling up this power by a marvelously dexterous system of barriers to its expression. Thus political equality under the ballot was granted on the unstated but factually double-locked assumption that the people must refrain from seeking the extension of that equality to the economic sphere. In short, the attempted harmonious marriage of democracy to capitalism doomed genuinely popular control from the start. And all down through our national life the continuance of the union has depended upon the unstated condition that the dominant member, capital, continue to provide returns to all elements in democratic society sufficient to disguise the underlying conflict in interests. A crisis within the economic relations of capitalism was bound to precipitate a crisis in the democratic political system.

Democracy in the era of economic liberalism has viewed power as a thing to be feared, rather than used; and this disposition, coupled with the checks on democratic action written into the Constitution, has prompted American democracy to state the problem

of power negatively. It has been casual, to the point of recklessness, about the positive development of its own authority. Formally, democracy has held all the aces. But actually, as Laski has pointed out, "The disproportion in America between the actual economic control and the formal political power is almost fantastic." Despite intermittent guerilla warfare between state power and private economic power through all our national life, democracy has slurred over the challenge to its very existence inherent in growing economic power. This has been due to a number of factors. (1) The fact that the issue between the two types of power has been so heavily cloaked under the sectional issue between the agrarian and the Eastern industrial states has diverted attention from the fact that capitalist economic power constitutes a direct, continuous, and fundamental threat to the whole structure of democratic authority everywhere and always. (2) The appearance of the Industrial Revolution simultaneously with political democracy distracted men's attention from the perennially unfinished task of building democracy. Equipped with a new and marvelously growing technology and with a raw continent beckoning to be exploited, Americans turned their attention all down through the nineteenth century to the grand adventure of getting rich. Democracy was taken for granted as substantially achieved, or at most requiring only to be defended. And a naïve and dangerous popular faith has grown, notably since the Civil War, that democracy and capitalist enterprise are two aspects of the same thing, so that the progress manifestly occurring in industry must also be happening in the democratic political system. Since democracy itself thus failed to throw constantly new goals ahead to catch the imagination and to evoke the energy of its citizens, men thus deprived of anything bigger to work for have in the main vindicated the cynical view that they are motivated only by selfish personal interests. Under such a distorted view of democracy, in which the state and society are nothing and the individual everything, democracy has become increasingly identified with the protection of one's personal affairs; and this has steadily sapped its vitality. (3) Because this "American way" has worked so seemingly opulently, and because of man's need in the rough and tumble of an increasingly insecure world to feel immutable security somehow back of him, American citizens, preoc-

cupied with everything but the affairs of democracy, have increasingly imputed to the Constitution, the central symbol of American democracy, an extravagant finality. If this great and mysterious It were but defended, democracy remained unchallenged.

In such an environment, democracy has been largely tolerant of the businessman, for the most part encouraging him with a lavish hand; for upon his restless enterprise the public welfare was conceived to rest. The "trust busting" of the turn of the century was a protest against what seemed to be excesses in an otherwise normal system, not a protest against the system itself. Even in recent decades, as business has grown in power until it has become a jostling giant, democracy has largely failed to recognize its political significance. The world was large and its wealth seemingly unlimited, and if business was growing bigger and more noisily insistent, this was viewed as but a surface manifestation of rugged growth. Down to the First World War abroad, and until 1929 in the United States, what businessmen did was regarded as primarily their own business. Since the fruit of their activities slopped over in taxes, wages, and dividends, it was manifestly contributing to general welfare.

But this nominal division of powers could not be maintained within the structure of capitalist nationalism. As industrialization has spread over the world and competition has increased, the reciprocal relation between state power and economic power has become more apparent. The fundamental import of what has been happening at a quickening tempo since the Russian Revolution of 1917 is the abandonment of the liberal fiction of the separateness of these two kinds of power. Organized business enterprise is less and less willing to tolerate checks on its activities by the state; more and more it needs the state as active ally; and the national state, in turn, having delivered itself over by accepting the definition of its welfare as synonymous with the welfare of its business system, needs increasingly the utmost of aggressive efficiency from its businessmen. Business is in politics and the state is in business. The state political apparatus can tolerate only the most efficient management of the economic system, since it depends directly upon the latter for national power in foreign relations; whereas the economy must have the political power to extend control, as the Nazis have demonstrated, to the regulation of the social sphere, "not to gratify

lower-class maudlinness or rapacity but to secure national concord and efficiency" as an essential aid to foreign economic competition. The result is an unmistakable trend toward the monolithic power structure of the totalitarian state.

And the public does not know what to do about this merging of powers up aloft over its head. As business has organized and has begun to state cogently and lavishly the case for its version of such an "ordered society," the popular challenge expressed earlier in the campaign to curb bigness by governmental action has become confused and blunted. Big business has carefully disseminated to the little man at the grass roots enthusiasm and pride as an American in the superefficiency of the marvelous assembly lines and other paraphernalia of giant technology that produces his automobiles and other daily conveniences. The little man is puzzled, hypnotized into inaction: if he is not to oppose *bigness* itself, the bigness of Henry Ford, Du Pont, and the other great corporations that makes these characteristically American things possible, what *is* he to oppose about big business? The technique of dazzling, confusing, and dividing the opposition, used by Hitler, has been skillfully practiced by the propagandists for big business.

The rapidly spreading web of interindustry organization of this business power is the immediate focus of Dr. Brady's book. We live in an era in which only organization counts; values and causes with unorganized or only vaguely organized backing were never so impotent. The rapidity of current change creates the need for quick decisions, which puts the organized minority that knows what it wants at a thumping advantage over the scattered and wistful majority. In fact, it is able, as the Nazis have demonstrated, to exploit majority confusions ruthlessly in the name of majority values to minority ends.

One of the most striking conclusions from Dr. Brady's book concerns the similarity in type and function of the organization of business interests from nation to nation, despite seemingly widely dissimilar national backgrounds. This is due primarily to the inner common tendencies within capitalist-controlled technology wherever it operates. But it is also due in part to the fact that men operating across the world from each other learn organizational and other tricks of their trade as rapidly as these appear. Major changes

in the way men live and work together under industrial conditions no longer happen in one industry or one country and then spread at a pace to be measured in decades or generations. Inventions have shrunk physical space and organization has diminished social space. World competition sees to it that a profitable technical or organizational device runs around the world of organized interest before common folk in the country of origin are generally aware that it has been developed.

Social organization around functional concerns is normal to human beings. Western liberalism, imputing freedom and rationality to the individual, washed its hands of the problem of securing positive organization; it proceeded on the assumption that, wherever organization was socially desirable, men would recognize the need and forthwith organize themselves. Such a theory not only misread human nature but it failed to take account of the momentum developed within such a cultural complex as machine technology owned and exploited within a legally buttressed system of private property rights. Liberal democracy has never dared face the fact that industrial capitalism is an intensely coercive form of organization of society that cumulatively constrains men and all of their institutions to work the will of the minority who hold and wield economic power; and that this relentless warping of men's lives and forms of association becomes less and less the result of voluntary decisions by "bad" or "good" men and more and more an impersonal web of coercions dictated by the need to keep "the system" running. These coercions cumulate themselves to ends that even the organizing leaders of big business may fail to foresee, as step by step they grapple with the next immediate issue, and the next, and the next. Fantastic as it may sound, this course may end by the business leaders of the United States coming to feel, in the welter of their hurrying perplexities, that survival depends on precisely the kind of thing Germany's big business wants: the liquidation of labor and other popular dissent at home, and a "peace" more vindictive than the Versailles Treaty, that will seek to stabilize an Anglo-American feudal monopoly control over the entire world.

Liberal democracy likewise never solved the problem of bigness; but it alternately fought and condoned it in a confusion of inconsistent policies. A cultural system drenched with the artisan spirit

for Industry Is Good for Your Family," and deftly selling itself to a harassed people as "trustees," "guardians," "the people's managers" of the public interest.

The large identities in problem and in organizational form to meet these problems in nation after nation suggest with startling emphasis that we in the United States are caught in the same major coercions that industrial capitalist nations everywhere face. We, too, have no choice as to whether economic and state power shall be merged; for there will be no survival for nations that seek to perpetuate the economic wastes and frictions and the social anarchy entailed in the operation of state power and economic power as rivals. The sheer fact of the emergence of the phenomenon of effectively planned nations has, because of the logic of organization inherent in modern technology, outmoded at a stroke the old system under which all our American national life has been lived. In the United States, the present stage of organized, centralized business power, already reaching out in control of schools, media of communication, public opinion, and government itself, provides more than a broad hint of the direction events will take, if present tendencies remain unchecked. In England, longer in the war than ourselves and closer to the choice that must be made, the same power tendencies are at work, despite optimistic reports of surface democratic manifestations. As this is written, the London *New Statesman and Nation* for August 15, 1942, carries a review of a book by an English businessman, N. E. H. Davenport. "He shows, in effect," says the review, "that what has happened is that the vested interests of monopoly capitalism have, for all practical purposes, taken over the government of the country. Behind the facade of political democracy they are preparing the economic foundations of the corporate State; and, to no small extent, they are being aided and abetted in this task by the powerful trade unions. . . . [Mr. Davenport] has made it clear beyond discussion that unless we are able very soon to persuade or compel the Prime Minister to swift and profound changes in his economic policy, we shall defeat Hitler only to be delivered into the hands of the same type of men for whom a Hitler is a necessary instrument."

In this really desperate predicament, American democracy is unprepared fully to assert itself. We are organizing—belatedly—to

fight a war for "democracy," but we are rendered gullible by our traditions as regards the precise thing for which to fight. We speak vaguely of "the Four Freedoms," and yet we do not go on to give these war aims, at home and abroad, the full-blooded, realistic content so essential if men are really to be quickened to fight for democracy. Such muting of democratic objectives creates the blurred confusion which can provide the perfect setting for the strong men who know what they want. Born as a nation coincidentally with the upsurge of the Industrial Revolution, situated in a rich continent which we have built up with the bodies of cheap foreign labor, protected by the accident of location during the years of our fumbling growth, we have through all our national life been borne forward by a favoring tail wind. This past we view, quite characteristically, not as a stroke of luck but as the vindication of the superior rightness of "the American way"; and this makes for complacency. Growing out of this is our blindness to any way of conceiving our national future other than in terms of the simple extension of our expansive past. Our national naïveté about organization is disastrous in the present crisis. We are called "a nation of joiners," but the individual still holds the focus of our national imagination. With all the flotsam and jetsam of our "joining," we have little popular belief in or experience of the hard-bitten type of relentless organization for power ends; and where we see it, for instance, in the Tammany type of politics, we deplore it even as we condone it as a special case and a somehow necessary evil. Of all the Western industrial nations, we are the least class-stratified psychologically and the only one without an active labor party or its equivalent in our national political life. And, again, this is not because "the American way" is fundamentally different, but primarily because the American ideology as regards capitalism is less sophisticated than is that of any other Western nation.

Thus our traditions conspire to make us unable to read the meanings behind the organization Dr. Brady describes. We are opaque to the political import of this massing of business power, and we still insist on regarding it as primarily a concern only of the businessmen. Meanwhile, the lawyers with their convenient conception of the role of the law, the public-relations men, the press, and all the other pliant agents of organized business go busily about on cat

feet as they spread the net and tighten the noose for those so abundantly able to make it "worth their while." Burnham's plausible thesis of the "managerial revolution" has been seized upon by business, and a powerful medium like *Fortune* proclaims itself in its new editorial policy as the organ "for the managers of America." But behind the fiction of the "manager class" so conveniently sterilized from the taint of special interest stands the same old power. "The voice is Jacob's voice, but the hands are the hands of Esau."

If the American rank and file—the upwards of four fifths of the nation who are working-class and small-business folk—are thus illiterate in the language of contemporary power, the case is almost as bad with those experts, the professional social scientists, whom society supports because they profess to know about men's institutions. It is no accident that, as Dr. Brady points out, a world of scientists who comb their fields for important problems for research have left the problem of the power organization and politics of big business so largely unexplored. For the most part, contemporary social scientists still exhibit toward the changing business world the encouraging moral optimism of Alfred Marshall. Nor are we helped by the fact that the crucial science of economics derives its data within the assumptions and concepts of a system conceived not in terms of such things as "power" but of blander processes such as the automatic balancing of the market.

American public opinion tends to reject out of hand any answer to the question "Where are we going?" that is not couched in the familiar optimistic terms. As we fight the present war, involving an unparalleled tangle of ideological inconsistencies, the popular mood encouraged by government and sedulously sponsored by business is to ignore controversial questions and to concentrate on winning the war. But the First World War gave interindustry coordination of big business rapid acceleration; post-war conditions gave it its opportunity and successful foreign precedents; and the management of the present war has been taken over by representatives of big business. And this time they may be in Washington for keeps. We shall emerge from this war well on our way to having a permanently planned and managed economy; and if business controls the goals of that planning, that will mean management also, from top to bottom and from center to circumference, of all relevant so-

cial and cultural life. The fresh, growing shoots of new life in our American culture will either be destroyed or ruthlessly grafted to the main trunk.

The thing we do not realize, or are prevented from realizing, is that we are building the structure and accompanying animus of the post-war world by the manner in which we fight the war. The already half-accepted formula that "You can't fight *this* war democratically" is both factually incorrect and a one-way ticket to American fascism. If democracy is suspended now, it will not reappear at the peace conference. If during the war we avoid the development of genuine democratic organization and participation, if we curtail the partial organization of labor we now have instead of moving forward to its thoroughgoing democratic extension, we can know for certain fact that democratic people's organizations will be similarly frustrated after the war. Both during the war and after, the issue is identical: Who controls, and to what ends? An answer to that question has been preparing in the organization Dr. Brady describes, and it is crystallizing in the staffing and manner of operation of current wartime controls in Washington.

As things stand, the fight is not an equal one. On the one side is abundant good will but lack of organization and channels of communication, some suspicion of the way business is fencing in the war for itself, divided counsels in organized labor and middle-class suspicion of labor, large confusion as to the issues, and a tendency to trust that "they" in Washington will somehow bring us through the war and then everything will be all right again. On the other side, effective organization and the crisis nature of the present, requiring quick decisions and encouraging decision in terms of blunt short-run objectives, favor those who seek to exploit the war to make the United States safe for big business. The *de facto* power of big business is reflected in the fact that the Government itself is, for the most part, timid and afraid of what big business will do if the war is not made "worth its while."

One stout weapon remains in the hands of the little people at the grass roots of democracy: no one dares to challenge in frontal attack the basic democratic thesis. (If an American version of fascism comes, it will have to come disguised in the full outward trappings of democracy.) The people can seize this remaining weapon

and use it offensively and defensively as the price for their participation step by step in the war effort. We live in a heroic time. And democracy will either throw off its lethargy and rise insistently to the stature of the times—or it will cease to exist.

ROBERT S. LYND

New York City
October, 1942

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ROBERT A. BRADY

Kansas City, Mo.

July 15, 1942

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Introduction

EFFORTS TO ORGANIZE BUSINESS FOR POLITICAL ACTION

ATTEMPTS to unify business on an ever more comprehensive basis are inevitable. For how else is it possible to cope with the administrative and managerial problems of an industrial technology which has for decades past been moving toward such a policy?

Intuitively, the most unsophisticated know this part of the story. The breakfast table draws its supplies from the most distant lands. The factory soaks up materials from a continent and sets the finished products flowing along well-grooved channels to the ends of the earth. Finely meshed networks of transportation, communication, and energy bind the whole more closely and rigorously together with each passing day. Within these spreading networks, industrial technology, in an infinity of small ways—hither and yon, endlessly, restlessly, ceaselessly—weaves tighter and more exactly the multifarious interdependencies which engineers, step by step, wring from the master patterns of the unfolding natural-science “web of reason.” Integration, coördination, planning, these are the very root and marrow, the essence and the spirit of the industrial system as it is being developed in our times. In these respects changes are unidirectional, additive, cumulative. From them there is no turning back. And, as the bitterly fought issues of the Second World War—a “total war” which pits entire economic systems against each other—have made abundantly plain, the end is not yet.

POLICY AT THE CROSSROADS

Moving with this trend, however consciously or intuitively, businessmen all over the world are engaged in weaving parallel

webs of control. As the separate strands are extended, a point is reached at which, willy-nilly, a choice of direction is forced upon the businessman. One way leads to the shaking off of all popular restraints on such cumulative powers and to shaping the contours and determining the content of economic policies pregnant with far-reaching political, social, and cultural implications. This is the totalitarian road. Organized business in Germany, Italy, Japan, and France has chosen to move in this direction, and has already found that the choice once made is both irrevocable and fraught with dangerous consequences. For it seems that, for better or for worse, what businessmen have taken for the agent of social catharsis is no less than a modernized version of Hobbes's *Leviathan*, whose self-appointed monarchs have learned from the inspired pages of *The Prince* only a *Realpolitik* of survival; a *Realpolitik* which may as readily demolish as resurrect any given structure of preëxisting special-interest controls, including—through the precarious fortunes of subsequent wars, revolutions, or internal paralysis—those of the business interests which fathered, with money, ideas, and leaders, the original coup d'état.

The contrasting choice is to force the growth of a sense of responsibility to democratic institutions, not by transmuting arbitrary controls into series of patriarchal relationships, however mellowed and benevolently postured, but by steadily widening the latitude for direct public participation in the formulation of economic policies affecting the public interests. How, is not for us to say. But clearly this is the alternative which faces highly organized business in England, the United States, and other scattered countries still moving within the orbit of the liberal-capitalistic system. Here, just as in the totalitarian countries before the fateful decisions were made, business must choose. If it hesitates, choice will be thrust upon it. On the record no further compromise is possible except a compromise moving definitely in one direction or the other. For sovereign power is indivisible, and a house cannot long remain divided against itself.

Considered solely from the point of view of vested interests, this choice is not an easy one for organized business to make. It is difficult not only because one route has thus far led to successive and politically dangerous disasters while the alternative entails a de-

mocratization reaching to the very roots of the ideology and the institutional sanctions upon which the business system rests as a whole, but also because organized business, however widely it may have cast its webs of influence and however swiftly its leaders may be centralizing authority through machinery of their own or others' devising, still has great difficulty in finding its collective mind. Some businesses are big; some little. Some are interested in contraction, others in expansion; some in local markets, others in national and international markets. Commodities, businesses, trades compete with each other long after conditions of partial or complete monopoly have been effected in restricted areas. For widely varying reasons some favor dictatorships, while others—particularly small businesses—can survive only in a democratic world. Within this newer business world, as often as elsewhere, what is one man's meat may well be another man's poison.

Thus even when organized business may have found some traces of collective mind, it faces the greatest difficulty in expressing a collective will, in focusing effort on the articulation of an internally coherent business program, in giving membership a sense of direction through promotion of a common social-psychological outlook, and in formulating for the doubtful a common set of simple and realizable goals. Yet, faced with the larger decisions which the trend of national and world affairs have placed before it, without these things business will everywhere be reduced to programmatic futility, and its centralized direction may well find itself without the wit at the critical moment to make even those half-hearted compromises urged upon it—as a condition to survival on any workable version of the time-honored principles of "muddling through"—by its own more vocal bellwether prophets such as Rathenau and Filene.

This is what happened in France, where organized business, unable to reconcile itself to further extension of democratic controls, sold its birthright for a condition of permanent vassalage to a foe sworn to destroy not business, but France. In the conquered territories, German firms have taken over the assets of resident concerns by right of conquest, not through "business as usual."¹ And by the

¹ As shown, for example in the history of the Hermann Göring Works—modern equivalent of the Stinnes empire—collected out of regrouped former governmental

same token, if Britain is conquered one cannot expect the Nazi principle of *Britannia delenda est* to be softened on behalf of the Federation of British Industries merely because the guiding figures in the *Reichswirtschaftskammer* learned their first economic lessons from the schoolteachers of Manchester. If German business succeeds in supplying the arms to, and financing the efforts of, a victorious Third Reich, its normal assumption will be that "to the victor belongs the spoils," an assumption followed by the British, in their turn, in South Africa and India. When a country is conquered, neither the business community as a whole nor any single individual within the inner business-control sancta can be sure of survival.

In the struggle for control over business power, small business is everywhere losing out.² Amongst the giants, whoever will not play according to the transformed rules will, upon becoming truly recalcitrant, be expelled by methods which partake more and more of the spirit of the purge.³ If we can draw any certain lesson from events of the recent past it is surely this, that organized business in one national system will show no mercy to organized business in

industrial properties, as well as concerns taken over in conquered territories, and miscellaneous private enterprises. For further details see pp. 49-50, following. See also current issues of the London *Economist* for data on French, Belgian, Norwegian, and Rumanian firms taken over by German interests following conquest. Nearly every leading German banking, industrial, commercial, and shipping company has shared in the booty to some extent.

² See data submitted by Willard Thorp on business failures, in the Prologue of the TNEC Hearings (see note 10, below) data presented in the Census of Distribution (1935), VI, 11; TNEC Monograph No. 17, *Problems of Small Business*; and data submitted below in chapters on compulsory amalgamation schemes in England, Germany, Italy, and Japan. The small become enrolled in control apparatus dominated by the large, shift into highly localized markets or the unprofitable fringes (such as credit and durable goods as against cash and carry, where the risks are higher and the gains through financing are secured and siphoned off by finance companies and the banks), become "sub-contractors" to the large, exist on sufferance for strategic reasons in facing regulatory authorities, submit to legislation and administrative controls which are the product of organized large-scale business pressure. See J. R. Sprague, *High Pressure* (New York, 1938).

³ What of Thyssen? everybody asks. But also, what of the Jews, what of Polish businessmen when the Germans took over, what of Skoda, what of the Lorraine ore fields, what of the rights of foreign corporations and stockholders? What of "chiselers" and "sellers-below-cost" in NRA, of perpetrators of "Unfair Trade Practices"? What of the fact that the Codes and the FTC Fair Trade Practice agreements are typically designed to catch the small-scale violator of business "codes" drawn primarily by the large, even though it be the latter which enjoy the almost exclusive attention of the Anti-Trust Division?

another national system, once conflicts of interest have forced matters to the arbitrations of war. The delegation of the Federation of British Industries in Manchukuo failed once it became clear that Japan was able to consolidate its military victory, just as did a like attempt on the part of the same organization on the day following the British catastrophe at Munich.⁴

The underlying principles are not new. They are clearly in keeping with those long familiar to students of "trust and combination" *Realpolitik* in the domestic arena, and to those who have followed the clash of economic imperialism throughout the period leading up to the two World Wars on the larger field of action. The principal differences which contrast the contemporary with the past are found only in the size and compactness of current organization and in the scale on which the issues are now drawn. There is no difference in the issues themselves.

PARALLELS IN THE EVOLUTION OF BUSINESS CONTROLS

Thus a comparative study of attempts to expand business controls within the several capitalistic systems becomes a prime necessity for both business and the public. At the outset of such an effort, one is struck by four extremely interesting facts. First, the transformations undergone by business organization in those countries which have revamped their national systems along totalitarian lines are fully consonant with, and may be considered the logical outgrowths of, previous trends in structure, policies, and controls within the business world itself. Second, along every significant line the parallelisms in the evolution of business centralization within the several national systems, including those within countries still functioning on a liberal-capitalistic basis, are so close as to make them appear the common product of a single plan. Third, all business policies have been increasingly discussed and formulated in

⁴ The FBI delegation was in Manchukuo during the investigations of the Lytton Commission engaged in negotiations with Japanese interests. They were unsuccessful here, and the Japanese subsequently pushed them out of north and central China as well. During the Munich negotiations which led to the downfall of Czechoslovakia, a committee of the Federation of British Industries was holding pourparlers with the Reichsgruppe Industrie which called for dividing European and world markets between British and German interests through a series of widely expanded cartel controls.

the face of widespread—in many respects very highly organized and always potentially threatening—popular opposition, whose interests have been coming into conflict with those of organized business in a way which more and more challenges the traditional business view of the proper objectives and the responsibilities of economic leadership as such. And finally, the implications of power in such wide-spreading business controls, together with the popular challenge to business leaders, cause all economic issues to take on a political meaning, and thereby cause the role of the government to grow in importance in a sort of geometric ratio.

It does not follow from the first of these facts that “totalitarianism” was the inevitable result of previous trends in business organization within the Axis states, but only that it was inescapable, because those trends were unmodified when circumstances of an eventually revolutionary character forced quick decision within strategically placed business circles committed to no further compromises with democratic government. It does not follow from the second fact that there was actually such a plan. The reverse is true. But it does follow that there were common sets of forces operating through greatly varying historical environments, with many factors (such as the level of industrial development and the nature of business organization at the time of rapid adoption of industrial and business methods) ⁵ differently timed, blended, juxtaposed, or set in conflict, which shaped and posed the issues in similar ways. And from the third and fourth, only this follows, that the issues everywhere come to rest not on whether the government was or is to be the coördinator, for that is now truly inescapable, but on whether the government will be able to coördinate and plan economic activities toward popular ends, responsible directly therein to democratic institutions, or toward the specialized interests of self-assertive and authoritarian minority groups.

From these considerations the special question necessarily arises, does capitalist civilization anywhere show any signs of being able or willing to plan means and unify ends on a national scale according to a workable formula that is still consonant with democratic institutions? We well know what happened in the totalitarian countries where organized business underwrote the antidemocratic re-

⁵ See, in particular, the chapters on Germany, Italy, and Japan.

action. Can different results be expected elsewhere? Everyone concerned with the present dramatic crisis in world history would like to see this question resolved. Opinions, in reply, already differ as deeply and fundamentally as the status and social philosophies of those who give answer. This much is certain, the attempt—sometimes made consciously, but more often in groping fashion—to cope with the problem in some manner or other is being made in every major capitalistic country in the world. Business is becoming aware of the range of larger issues, is organizing to meet and resolve them, and its collective efforts to these ends are widening out on an ever more comprehensive scale.

And as it gathers together its forces, it comes everywhere to think politically, begins to come to grips at a thousand and one points with the “social question” in all its bewildering manifestations. So proceeding, organized business has more and more found itself compelled at least to make the attempt to evolve new “social philosophies,” which will meet the more fundamental challenges dividing its own members in the preferred reaches of the social pyramid and at the same time meet those other challenges thrown at it by the leaders of the vast popular ranks becoming increasingly conscious of their own specific and often opposing interests.

In accomplishing this aim, can business still hope to retain its control over the inner sancta where the fundamental economic decisions are made? And if it succeeds in any marked degree in so holding on, will the political and social controls evolved be reconcilable with continuation of a democratic way of life? These are the fundamental, the critical questions of our times.

LACUNAE IN THE HISTORICAL LITERATURE

Many of the steps by which these issues have been pushed to the fore, and also the history of business methods evolved to meet them, have still to be traced. Most important of all the numerous gaps in the literature, which has laid bare one or more facets of the problems here posed, is that dealing with the specific forms of organization established by business for the dual purpose of unifying within its own ranks while presenting a common front to all opposition groups. This lack in the literature is the *raison d'être* of this study, which in itself can scarcely hope to give more than a sketch of a

vast terrain that urgently requires careful mapping and systematic investigation.

What has been generally missed by scholars interested in such matters is that these forms of organization, regardless of the initial purposes of their sponsors, rarely confine themselves for long to strictly "economic" matters. As a general rule, the bigger and more comprehensive trade associations and their federational or "peak associations" (*Spitzenverbände* as they are known in the German literature ⁶) become, the more clearly do social and political policies edge to the fore. Economic problems thus come to be quickly intertwined with these other issues, and the trade association begins to take on an entirely new cast of thought and to hew a line in keeping with newly transformed political directives.

So it is that, if the growth in the relative importance of giant corporations is properly termed "concentration of economic power," expansion of trade-association networks means "mobilization of the entire business community." If the former is defined as "trustification," ⁷ then the latter implies "unification" or "synchronization." ⁸ If the former carries with it growing resort to "monopoly practices," the latter calls for increasing "political and social awareness."

The two, of course, are not independent phenomena. As the following pages will show they are related in time, in origin and processes of growth, in the logic of circumstances which bind them to each other as historical developments, and in the compulsions they exert for an ever and cumulative widening of governmental regulation and control. Herein lies the larger significance of each—an importance that transcends by far the consequences of the two taken separately and by themselves.

Appreciation of the precise nature and the real meaning of such interdependence has been retarded by a curious shortcoming in the body of current economic and political literature. That the two have long existed side by side is now generally recognized. That the larger corporations and dominant business groups have taken an

⁶ See pp. 29-36 for a description of the pre-Nazi *Spitzenverbände*.

⁷ See Joseph Schumpeter, *Business Cycles* (2 vols., New York, 1939).

⁸ A summary history of the National Association of Manufacturers is entitled, "The Nation's Industry Synchronized," which implies a conception of functions one step beyond mere "unification."

active, and more recently (since the depression of the '30s) a leading, position in the trade associations has been taken for granted. But the trade association has appeared to be, in the main, relatively unimportant in the formulation and promotion of business policy as a whole. The result has been comparative neglect. A neglect, incidentally, so pronounced that one refers with difficulty to a single outstanding study of any one trade association, or any single line of trade-association policy in the entire economic literature of the last decade.⁹

Thus, while "concentration of economic power" has become sufficiently important to merit the entire attention of one of our most noteworthy recent governmental investigations,¹⁰ and has become the subject matter of a vast and swiftly proliferating technical literature on forms of "monopoly" ¹¹ and "trust problems," the trade association, the intercorporate "institute," and the chamber of commerce have been almost entirely neglected by the learned fraternities. With but minor exceptions—and then only with reference to antitrust proceedings, problems of "civil liberties" or discussions of general "association activities"—they have largely escaped the dragnet of official inquiry as well.¹²

Yet sixty years after the beginning of the so-called "trust movement" in the United States, the Department of Commerce found

⁹ In American literature there is only one outstanding study of the phenomenon in general, and that, *Employers' Associations in the United States*, by Clarence E. Bonnett, was published in New York in 1922. Even this excellent survey related only to the labor angle of a few highly specialized (at that time) employer associations.

¹⁰ "Investigation of Concentration of Economic Power," made pursuant to Public Resolution No. 113, 75th Congress, "Authorizing and directing a select committee to make a full and complete study and investigation with respect to the concentration of economic power in, and financial control over, production and distribution of goods and services." Hereafter the investigation and its findings will be referred to as TNEC Hearings.

¹¹ By the term "monopoly" I mean, in the present connection, all those various forms and practices which give some degree or other of power over the conditions and terms of doing business which reach upon the direct limits of corporate control. See Chapter VII.

¹² See the various volumes of the Senate Committee on Education and Labor ("La Follette Committee") dealing with the National Association of Manufacturers, the National Metal Trades Association, the Associated Industries of Cleveland, etc. Hereafter I shall refer to these materials as La Follette Committee Reports. The National Resources Committee, in its recent publication *The Structure of the American Economy* (Washington, D.C., 1939), devotes slightly less than two pages in a 76-page discussion of "The Organization of Economic Activity" to all trade associations and chambers of commerce.

streamlining, not abolition, of this elaborate machinery. A like generalization holds for Italy, where under four strictly business associations out of a total of nine Fascist Confederations there are to be found 91 separate associational groupings.²⁰

Although comprehensive data on England, France, and Japan are more difficult to obtain, the same trends are observable. And, once again, we find that almost all of this associational machinery is of comparatively recent vintage. Possibly, as with the United States, three-fourths of it is postwar. In Japan most of it appeared after the early '30s. This holds for cartels, both national and international, as well as for trade associations and chambers of commerce.

Of all these multifarious associations, only the cartels have been examined with any considerable care; even here there is a general lack of critical works on individual cartels except in a few highly specialized fields (iron, steel, coal, and potash) and it is becoming increasingly difficult to distinguish between cartel and normal trade-association functions. In the comprehensive survey of "The Economic and Social History of the World War" published under the auspices of the Carnegie Endowment for International Peace,²¹ there is scarcely a mention of even the more important of these organizations, although again it was the conditions of wartime which provided the major stimuli to their formation and expansion. The reports of the British "Committee on Industry and Trade" (Balfour Committee),²² published in the later twenties, make only side and quite incidental references to an occasional few. Nor do the monumental reports of the German Committee of Inquiry,²³ concluded but a short while before the Nazi government assumed power, take this organizational mushroom growth more seriously. As indicated, the TNEC devotes but one very superficial monograph to the trade association,²⁴ and

²⁰ See *Fascist Era, Year XVII* (published by the Fascist Confederation of Industrialists), pp. 207-12.

²¹ Running into several hundred monographs, brochures, and abridgments of one sort or another, and including every country a party to the World War on either side.

²² Seven volumes, with a "Final Report" published in 1929.

²³ *Ausschuss zur Untersuchung der Erzeugungs- und Absatzbedingungen der deutschen Wirtschaft (Enqueteausschuss)*, begun in 1926, completed in 1931, and running well over a hundred volumes.

²⁴ No. 18, *Trade Association Survey*. "Superficial" because based solely on answers to questionnaires voluntarily filled out by 1,311 trade-association executives who

in other scattered cases makes only side reference to the subject.²⁵ But for the most part its writers miss the real significance of NRA and ignore all the mass of data collected through the efforts of the Anti-Trust Division under the leadership of Thurman Arnold.²⁶

political environment hostile to undue centralization of naked economic power. It cannot be forgotten that the world of relatively small-scale middle-class business of the not distant past, out of whose rich gleanings the great monopoly-oriented economic empires of the present gathered their first strengths, feared arbitrary political authority above all else. In limiting the state to *laissez faire*, they were careful to see that its functions were so defined as to make the state the specialized guardian of its own duty not to interfere as the tool of any hostile interest.

The history of government regulation of business has been primarily the history of attempts of small business to employ government to defend their interests against the encroachments of business monopolies,³⁴ and of the latter to wrest the initiative from the small.³⁵ The business giants, operating to an increasing extent in these matters through trade associations and their *Spitzenverbände*, seem to have found an effective means for neutralizing this opposition, and to be in a fair way to the achievement of a "unified" and "harmonious" outlook of the business world vis-a-vis labor and any other challenging interest.

Real conflicts of interests within the business world have not been eliminated by these means, but to some degree they have been coördinated. Such successes as the various *Spitzenverbände* seem to have achieved in their legislative and allied efforts in the several capitalistic countries seem to stem in large part from the fact that they have been able to act as though business were united in bringing their collective pressures to bear upon government. It holds as a corollary to this that the bitterest and most ruthless attacks will be made upon those businesses large or small which refuse to play the game according to the new rules. The more "self-government in business," the more quickly the "price cutter," the business "alien," or any other footloose tycoon will be brought to

³⁴ The vast and overwhelming bulk of complaints against the exercise of monopoly controls coming into the United States Department of Justice's Anti-Trust Division come, as Mr. Arnold has frequently pointed out, from business circles. The pressure for enactment of state and federal antitrust controls, as—for that matter—the bulk of the business regulatory machinery, emanates from similar circles.

³⁵ As, for example, in the bulk of the resale price maintenance laws, agricultural marketing-agreement enabling acts, etc., now to be found on the statute books of most capitalistic countries.

heel by any means at the disposal of the central direction. The more complete the authority and the more centralized the power to act, the more quickly and drastically such action will be taken.³⁶

Thus, there slowly emerges an apparent single view, a seeming common cause, and appearance of a general business "harmony," the semblance of a certain common business social philosophy which takes on form and content step by step with the growth and expansion of the centralized influence of the great peak associations.³⁷ And in proportion as this seeming internal unification takes place in organized business, one finds slowly being evolved parallel ideas vis-à-vis all other interests which, however and by whichever route they may come in conflict with any given business or aspect of business control, have no alternative but to appear to challenge the business world as a whole. Given comprehensive organization—the common ideal of the trade association all over the world—this posture of affairs appears inevitable in the very nature of the case. If conflicting interests, as, for example, in the case of labor, are organized on an equally comprehensive basis, the effect will be thrown in much sharper relief. And it is an effect that has gradually become universally evident throughout the capitalistic world of the last half century.

How do the trade, employer, and business *Spitzenverbände* then proceed to meet challenges which they are led to interpret as in conflict with the tenets underlying the capitalistic world as such? By somewhat varying routes, organized business amongst the several capitalistic countries has arrived at pretty much a common set of solutions. For the sake of brevity, and because they recapitulate a part of what has been said above, these may be summarized as follows:

³⁶ Consequently, the ejection or strategic demotion from the central councils of a Hjalmar Schacht, a Herr Thyssen or a Robert Stewart, not to mention the Jews when the opportune moment comes, becomes thoroughly understandable and a matter of course. Whoever does not play according to the accepted rules will be thrown out, just as whoever is weak will be absorbed in the strategies that lead to business mergers, and their expulsion or absorption is proof not of the weakness but of the strength of organized business.

³⁷ Which does not mean, of course, that the old conflicts do not exist, but that in a certain sense they have been "domesticated." It is noteworthy that in the United States the growth of centralized business organization has been paralleled by both increasing concern over the fate of small business, and by its increased mortality (see the Prologue of the TNEC reports). In both Germany and Italy, the plight of little business, long before the outbreak of war, was becoming steadily worse.

1. *Control over popular organizations*: the company union is father to the idea of universal, comprehensive, all-inclusive business-controlled joint labor-employer membership federations, of which the German Labor Front and the Italian General Confederation of Labor³⁸ are the highest development to date. Similar ideas have run through the literature of American, French, and British business. An attempt was made to set up such a body in the United States in 1912; the Federation of British Industries was originally intended to include both labor and employers. The programs of De Mun, Harmel, and the French Social Catholic movement evolved similar ideas before the turn of the twentieth century³⁹; the new French industrial reorganization plans follow similar lines. The ideas and patterns of the company union are applied wherever any other form of popular organization—of farmers, consumers, little businessmen, professionals, women—has struck root. The idea is everywhere and in all countries the same: mass organization centered around the ideologies of the upper business and social hierarchies and controlled by the self-appointed and self-perpetuating “natural” leaders from those ranks.
2. *The militarization of employer-employee relations*: by a reassertion of authority in the hands of the employer similar to that which obtains in the army. This can be read from all complaints in the literature of the *Spitzenverbände* and their subsidiary bodies when faced with effective labor protest, as in the events centered around the British General Strike in 1926, the movements of the French Popular Front centered in the Matignon Agreement of June, 1936, the rise of the CIO in the United States and complaints demanding modification of the National Labor Relations Board, and in the successes of German, Italian, and Japanese employers, scored on the initiation of Fascist-type systems. A corollary is the militarization of legislative (substitution of the “edict” for statute law) and judicial (through the procedures of martial law) powers, with the consequent disappearance of the line between civil and military, the discipline of war and peace. The regimen of the “unorganized” industrial plant such as that of Ford is here prototypal of objectives seen as desirable by spokesmen who may have power to suggest or act in the larger sphere.
3. *The evolution of a “harmony-of-all-interests” propaganda in which the employer appears as benevolent pater familias*: such was the blending which underlay the social legislation of Bismarck, the programs of De Mun and Du Pin in the French Social Catholic movement, the Papal Encyclicals of *Rerum Novarum* in 1891 and *Quadragesimo Anno* in 1931, the “Clerical Fascism” of Dollfuss and Schuschnigg in Austria and of Franco in Spain, the NRA and some

³⁸ Salvemini, *Under the Axe of Fascism*, Chapter VII.

³⁹ See above, pp. 58–66.

of the American New Deal Legislation, the Japanese National Harmonizing Movement, and, of course, the whole of "welfare capitalism." The employer as "patron" or "trustee" becomes the *beau idéal* of the business world. Correlatively the trustee concept still is applied in all other relationships of real or potential conflict between organized business and the general public. The parallel to "industrial relations" is "public relations," and this latter is growing by every known criterion of relative importance in a sort of geometric ratio to all other corporate publicity interests, both in the United States and abroad.⁴⁰ "Public relations" advances the concept of a natural "harmony" of interest between business and the public, business and the consumer, business and social and economic progress. The relationship is that of "trustee of the people's property and welfare."⁴¹

4. The "educational emphasis" looks two ways: towards "neutralizing" the hostile amongst adults, while engraining "loyal" staff and especially the younger generation "through the doctrine of the organization itself." "Neutralization" involves recognition, wherever the *Realpolitik* of strategy may determine, of trade unions and similar organizations; emphasis upon "coöperation" by promotion of labor-employer community activities; regional decentralization of plants; legal restraints upon the "abuse" of labor power; use of police power, strike breakers, espionage at need; the mobilization of the middle and professional classes into patriotic and other federations;⁴² attacks on opposition leadership under the guise of attacking "racketeering"; encouragement of fear of "aliens," "fifth-columnists," and other menaces which encourage in turn emphasis upon group loyalties, patriotic sentiments; especial types of interest programs and propaganda for women, children, and the aged, etc. Conversely, education of the young calls for control over apprenticeship training; purge of school textbooks; vocational emphasis with belief in an eventual occupational stratification in which there is a one-to-one correspondence between economic station and presumptive I.Q.;⁴³ evolution of a system of rewards and punishments which

⁴⁰ For example, the NAM public-relations program was first granted a small sum of money in 1934. By 1937 public-relations expenditures were larger than those for all purposes combined before 1934—a sum which was estimated, at commercial rates, to equal in that year around \$36,000,000 for the whole United States. Since that year these expenditures have been probably doubled.

⁴¹ See Batchelor, *Profitable Public Relations. Bureaucracy and Trusteeship*. The Nazi motto, *Gemeinnutz geht vor Eigennutz*, carries the precise equivalent for German businessmen for the dictum, "A widespread, favorable attitude of mind is a first essential to effective trusteeship in big business. People must expect and assume that managers will look out for interests other than their own. Managers in turn will then attempt to live up to expectations." TNEC Monograph No. 11, p. 130.

⁴² See pp. 287-90.

⁴³ See pp. 280-86.

turn on the axis of loyalty to the concern; the substitution of non-commercial for commercial incentives; of group and "social" for individual and personal incentives.

5. *The key to control is political*: executive authority and policy-forming power are concentrated in the same coöptatively renewed ranks, and these recognize that the key to power is twofold; (1) consolidation of all the "ins" in a solid, interest-conscious bloc; (2) a popular following, the key to which is alliance with any faction, movement, or party which has or may acquire popular following without disturbing the general social structure of command and subordination. This means compromise with the *nouveau puissant* as they are co-opted into the movement on all matters relating to "the take"—an old practice in relationships between political rings and powerful vested interests all over the world, but now generalized to entire national economics, and rationalized with an eye to sterilization of "take" knowledge and demand for participation below the upper ranks. And for these lower reaches, the evolving programs of the organized business world look to well-ordered, and especially trained and loyal cadres of hierarchically controlled employees over whom as "leaders" they have complete charge—as Gignoux of the Confédération Générale du Patronat Français expressed the matter—"not only of men but of souls."
6. *The new power complexes are inherently expansive*: two things are united in this reaching for political power. One is the tendency of all democratically irresponsible power aggregations to expand without limit. And the other is the fact that the "life styles" of the units which form the cells of the new power pyramids have each and all been dominated by a tendency to expand without limit—a fact with which all great business leaders have been thoroughly familiar and which has been traced at great length by Sombart and others. Given control or power decisively to influence the national state, imperial expansion is inevitable. The more or less rational combination of fully articulated systems of protection and privilege combined with imperial expansion, on the one hand, and the integrative pressures of a rationally articulated industrial technology, on the other, lead logically to the concept of the next largest politically omniscient and coherently organized imperial area, "great-space economics" (*Grossraumwirtschaften*).⁴⁴

⁴⁴ All through the Godesberg and Munich discussions the Federation of British Industries was carrying on negotiations with the Reichsgruppe Industrie. "On March 16, the day after the fall of Prague, the Dusseldorf discussions culminated in the signature in London of an agreement between agents of the Federation of British Industries and the Reichsgruppe Industrie to 'replace destructive competition by constructive coöperation.' It contemplated the creation of a series of Anglo-German cartels." Frederick L. Schuman, *Night Over Europe*, p. 107. Similar conversations

"The soul of Amenhotep is higher than Orion, and it is united with the underworld"—so runs a melancholy passage from the ancient Egyptian "Book of the Dead." The roots of power of the several *Spitzenverbände* are intertwined in the sanctions of evolving imperial class status, but monopoly-oriented business which attempts to evade effective democratic restraints can dominate government only through control over the thinking processes of the mass of the people who dwell at the base of the social pyramid. "Dangerous thoughts," as the Japanese are so acutely aware, breed democratic heresies. Antidemocratic "totalitarianism" can triumph only through ultimate consolidation of its "authoritarianism" by the seizure of political controls. Every single step in the path which leads in our times to use of the expedients which spell ultimate resort to the coup d'état are now sufficiently well known to be recognizable at a glance. And nothing fundamental in history, program, structure of organization, or social outlook divides clearly the policies of the *Spitzenverbände* within the "totalitarian" countries from those of the liberal-capitalist states. Within Germany, Italy, Japan, and France these bodies made the critical decisions without which the final destruction of democracy could not have taken place.

Is it possible that the lesson will be learned elsewhere before it is too late?

were carried on between Japanese interests and the Federation of British Industries through a good deal of the crisis period when the Japanese took over Manchukuo. Nothing is to be found in the literature of the National Association of Manufacturers to indicate disapproval of the structure of controls effected through the machinery of German and Italian *Spitzenverbände*, though considerable sympathy is frequently expressed that these latter should be so closely controlled by the government—a sentiment, incidentally, which the leading figures on the inner business circles in the totalitarian countries rarely reciprocate. Yet the Germans thought of NRA in 1935 as the equivalent of what they had brought on themselves, and wondered not a little that there should be so much complaint among American businessmen against their own program of "self-government in business" (The Germans use the same term), which they themselves had clearly helped to shape and guide from its initial stages on—and which must, so these same persons argued, be surely seen as the inevitable pattern of the future if business and the capitalistic system are to survive in America as elsewhere.

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